

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Otsego	County Allegan
Fiscal Year End June 30, 2007	Opinion Date 09/25/07	Date Audit Report Submitted to State October 22, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

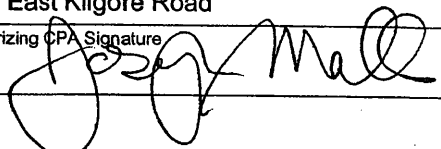
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not required	
Other (Describe)	<input type="checkbox"/>	Not required	
Certified Public Accountant (Firm Name) Siegfried Crandall PC		Telephone Number (269)381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
Authorizing CPA Signature 		Printed Name Joseph M Walls	Zip 49002
		License Number 1101013696	

City of Otsego
Allegan County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Otsego, Michigan Management's Discussion and Analysis

The following discussion and analysis is intended as a narrative overview of the City of Otsego's operations over the fiscal year and its financial condition on June 30, 2007.

Financial Highlights

- § The City's total net assets increased \$369,707, or 2.8 percent, as a result of this year's operations. Net assets of the governmental activities increased \$215,523, or 3.2 percent, whereas net assets of the business-type activities increased \$156,184, or 2.4 percent.
- § Of the \$13,507,576 total net assets reported, \$3,630,102 is available to be used to meet future operating and capital improvement needs.
- § The General Fund unreserved undesignated fund balance at the end of the fiscal year was \$902,254, which represents 44.1 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis introduces the City's basic financial statements that follow this section. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. Additional supplementary information is also included to provide a more detailed view of the City's financial structure and support to the information provided in the basic financial statements.

This is the fourth year using the Governmental Accounting Standards Board Statement 34 (GASB 34) reporting format. A comparative analysis of the basic financial statements will be made using the current and last year's basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a format similar to that of private-sector financial statements. The Statement of Net Assets and the Statement of Activities are designed to be corporate-like in that all the governmental and business-type activities are consolidated into columns that add to a total for the Primary Government. These statements should help the reader to answer the question: Is the City, as a whole, in a better or worse financial position as a result of this year's activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized regardless of when cash is received or paid.

The Statement of Net Assets reports all of the City's assets and liabilities along with the difference between the two, which is identified as the net assets. This statement combines and consolidates short-term spendable resources (e.g., cash, receivables, inventory, etc) with capital assets. Increases and decreases in net assets may serve as an indicator over time as to whether the City's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position such as the status of the City's infrastructure and property tax base.

The Statement of Activities reports both the gross and net cost of the various programs and activities of the City that are funded by property taxes and other revenue sources. This presentation is intended to summarize the cost of providing the various governmental services. This statement also shows the change in the City's net assets over the fiscal year. All changes in net assets are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report three types of activities:

1. *Governmental Activities.* These activities include functions most commonly associated with government (e.g., police, fire, public works, parks, etc.). Property taxes and intergovernmental revenues usually fund these services.
2. *Business-Type Activities.* These activities provide services that are supported by customer user fees. The user fees are calculated to provide all or the majority of the operating costs involved in providing the services. The City operates two business-type activities that reflect the private sector type operations, water and sewer services. The City operates a third activity referred to as the Capital Project Fund which is classified as a business-type activity because it currently involves residential plat development, which is recovered through the sale of lots.
3. *Discretely Presented Component Units.* Component units are legally separate organizations which the City (the City Commission) can exercise influence and/or for which the City is financially accountable. The City has one component unit, the City of Otsego Downtown Development Authority (DDA). The financial statements are primarily focused on the City. The component unit information, however, is presented to show its activity and relative financial relationship to the primary government.

Fund Financial Statements

Fund financial statements are presented in a manner similar to the reporting format of prior years. These detail the activity that has occurred in the City's most significant funds. Individual funds, or fund accounting is necessary to track revenues and expenditures that are directly related to specific activities or required by statute/ordinance to be budgeted and accounted for separately. To be reported separately and considered as a major fund, however, a fund's total assets, liabilities, revenue or expenditures must be at least 10 percent of the total assets, liabilities, revenue or expenditures for all funds of that category or type.

The City's funds are classified into three categories which each use a different accounting approach:

1. *Government Funds.* These funds account for essentially the same functions reported as governmental activities in the government-wide financial statements mentioned above. The governmental fund statements, however, are presented on a modified accrual basis, which focuses on the short-term (60 day) sources and uses of available resources, as well as the balance of spendable resources at the end of the fiscal year. A review of these statements can show if there has been an increase or decrease in the resources available to continue providing services to our residents. The relationship between governmental activities reported in the Statement of Net Assets and Statement of Activities and the governmental fund statements is reconciled in the financial statements. Governmental funds include the General Fund, special revenue funds, capital project funds and debt service funds.
2. *Proprietary Funds.* Proprietary funds account for the expenditures involved in providing particular services to customer who are then charged fees calculated to recover the costs of operation. These funds use accrual accounting which is the same method used by private sector businesses. The City maintains two different types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and land development services. Internal service funds are used to accumulate and allocate costs internally across various City functions. The City uses internal service funds to account for its DPW Equipment Fund that essentially functions as a motor pool. Because the equipment is rented by the hour to provide services which predominately benefit governmental rather than business-type functions, it is included within governmental activities of the government-wide financial statements.
3. *Fiduciary Funds.* These funds record the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. These funds are not reported in the government-wide financial statement because the resources reported here represent a trust relationship and are not, therefore, available to the City to provide services to residents. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in separate Statements of Net Assets - Fiduciary Fund. This fund is also reported using accrual accounting.

Notes to the Basic Financial Statements

The notes provide additional information that is necessary to understand the data reported in the government-wide and fund financial statements.

Required Supplementary Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

Supplementary Information

Following the required supplementary information are combining financial statements for non-major governmental funds. These funds are added together and presented in a single column in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements. This section also includes governmental fund balance sheets, budgetary comparison schedules for each of the City's funds, and financial statements for the component unit.

Financial Analysis of the Government as a Whole

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Statement of Net Assets reveals favorable or positive balances in all three of the government-wide columns (Governmental Activities, Business-Type Activities and Totals), as well as the Component Unit column. A negative balance would indicate a deficit situation that would require further disclosure of plans to reverse the balance in the subsequent fiscal year.

A two-year comparison of the Statement of Net Assets is shown in Table 1. In the City's case, total assets exceeded total liabilities at the end of the fiscal year by \$13,507,576. However, the majority of the City's net assets (59.7 percent) represent an investment in capital assets (e.g., land, roads, storm sewers, water and sewer systems, buildings and equipment) less outstanding debt used to acquire or construct these assets. Because the City uses these capital assets to provide essential services to citizens, these assets are not available to be liquidated for future spending needs. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay the debt must be provided from other sources because the capital assets themselves cannot be used to satisfy these liabilities.

Overall, total net assets increased by 2.8 percent. This has been reflected primarily by an increase in cash as a result of excess revenues over expenses for the year.

A total of \$1,810,601 of the City's net assets are restricted for public works, public safety and bond debt repayment. The City may use the remaining balance of unrestricted net assets of \$3,630,102 to meet its ongoing obligations to citizens and creditors. Unrestricted net assets for government activities grew by 6.4 percent for the fiscal year, and unrestricted assets for the business type activities decreased by 7.4 percent. Governmental activity growth can be largely attributed to total revenue increases being greater than the small increase in expenses as the administration took a conservative approach to expenses in the cool economic climate, while the decrease in business type activities resulted from an increase in capital assets and less than expected operating revenues. The current level of unrestricted net assets for governmental activities represents about 64 percent of the past fiscal year's expenditures. The unrestricted assets are not necessarily cash or cash equivalents and this unrestricted net asset balance could easily be depleted in one or more substantial capital improvement projects or the continued economic downturn.

Table 1
Statement of Net Assets - Two Year Comparison

<i>(In thousands of dollars)</i>						
	Governmental Activities		Business-type Activities		Totals	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 4,159	\$ 3,047	\$ 2,547	\$ 2,707	\$ 6,706	\$ 5,754
Capital assets	<u>2,810</u>	<u>3,728</u>	<u>4,880</u>	<u>4,595</u>	<u>7,690</u>	<u>8,323</u>
Total assets	<u>6,969</u>	<u>6,775</u>	<u>7,427</u>	<u>7,302</u>	<u>14,396</u>	<u>14,077</u>
Other liabilities	103	95	418	225	521	320
Long-term debt	<u>83</u>	<u>111</u>	<u>284</u>	<u>508</u>	<u>367</u>	<u>619</u>
Total liabilities	<u>186</u>	<u>206</u>	<u>702</u>	<u>733</u>	<u>888</u>	<u>939</u>
Net assets:						
Invested in capital assets						
net of related debt	3,582	3,727	4,485	4,075	8,067	7,802
Restricted	1,698	1,430	113	197	1,811	1,627
Unrestricted	<u>1,503</u>	<u>1,412</u>	<u>2,127</u>	<u>2,297</u>	<u>3,630</u>	<u>3,709</u>
Total net assets	<u>\$ 6,783</u>	<u>\$ 6,569</u>	<u>\$ 6,725</u>	<u>\$ 6,569</u>	<u>\$ 13,508</u>	<u>\$ 13,138</u>

Statement of Activities

A similar two-year comparison of the Statement of Activities is shown in Table 2. This table identifies many of the substantial changes that occurred in revenues and expenses over the fiscal year.

A review of the Program Revenues shows modest increases in charges for services. Although charges for services for business type activities are still below historical levels, rate increases have helped offset the reduction in commodities sold. Business type activities are still affected by the closure of the Menasha paper mill and its subsequent reduction in water utility use, and a reduction in revenues from the sale of property in the Capital Project Fund. Increases in charges for services for governmental-type activities can be partially attributed to additional revenues related to the fire department's services to neighboring municipalities and the related charges for those services.

Other differences in revenues occurred in regards to property tax revenue and investment income. Property taxes show a modest increase of 1.3 percent. This increase occurred because of the increase in taxable value which offset the DDA's continued 100 percent capture of the tax increment financing (TIF) revenues available and a slight reduction in the solid waste reduction millage. Investment income, however, shows a significant increase for a second year due to market conditions and increases in funds available to be invested.

Under expenditures, two programs show decreases and three show increases from the prior year. These decreases were anticipated as the budget was developed in an effort to contain costs while making some improvements which had been postponed from prior years in anticipation of revenue shortages.

Governmental activities increased the City's net assets by \$213,523, thereby accounting for 57.7 percent of the total growth in the net assets of the City. The change was about 29 percent less than the increase in governmental activity net assets realized in fiscal 2005-06. Key factors allowing for this decrease are:

- \$ Smaller increases in property taxes and investment earnings compared to cost increases.
- \$ Reductions in operating and capital grants totaling about \$125 thousand compared to last year.
- \$ Conservative budgeting of operational expenditures in anticipation of further reductions in State Shared Revenues.

Business-type activities increased the City's net assets by \$156,184, accounting for the remaining 42.2 percent of the total growth in the City's net assets. The growth of these net assets increased more than \$135,000 from the amount realized in fiscal 2005-06. Key factors that allow the continued growth of business-type net assets are as follows:

- \$ Modest increases to utility rates charged to customers.
- \$ Continued conservative budgeting due to an anticipated reduction in industrial utility use,

A review of the business-type activities shows small increases in the charges for services for the capital project and sewer funds, but a small decrease in the water fund revenue. The capital project fund also had a related increase in expense from the cost of sales of developed lots. Overall, the business type activities benefited from increased operating revenues, slightly reduced operating costs, increased investment earnings, and a transfer from the City's Downtown Development Authority to account for the net asset increase.

Table 2
Statement of Activities - Two Year Comparison

(In thousands of dollars)

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Program revenues:						
Charges for services	\$ 203	\$ 181	\$ 947	\$ 894	\$ 1,150	\$ 1,075
Operating grants	315	461	-	-	315	461
Capital grants	21	-	43	7	64	7
General revenues:						
Property taxes	1,316	1,299	-	-	1,316	1,299
Public service tax	111	113	-	-	111	113
State grants	383	393	-	-	383	393
Franchise fees	37	34	-	-	37	34
Investment earnings	168	123	89	64	257	187
Other	8	14	-	-	8	14
Total revenues	2,562	2,618	1,079	965	3,641	3,583
Expenses:						
Legislative	10	10	-	-	10	10
General government	595	511	-	-	595	511
Public safety	937	1,022	-	-	937	1,022
Public works	720	673	-	-	720	673
Community and economic development	3	2	-	-	3	2
Parks and recreation	83	98	-	-	83	98
Land development	-	-	108	66	108	66
Sewer	-	-	493	489	493	489
Water	-	-	322	389	322	389
Total expenses	2,348	2,316	923	944	3,271	3,260
Increase (decrease) in net assets	\$ 214	\$ 302	\$ 156	\$ 21	\$ 370	\$ 323

Financial Analysis of the City's Funds

The last section of the financial report, entitled "Supplementary Information," includes balance sheets and statements of revenues, expenditures and changes in fund balance in more detail for each of the City's funds. The latter statements also include the amended budgets as adopted and approved for each fund. These reports will likely be more familiar to city commissioners and staff as they are more closely formatted in a manner similar to the monthly financials reports.

General Fund

The General Fund is the chief operating fund of the City. At the end of the fiscal year, total unreserved fund balance was \$902,254, which is \$4,438 less than the prior year. During the year, however, an additional \$20,000 was added to a previously designated but unreserved fund balance for the future replacement of a fire truck, so that the designated balance at the end of the year totaled \$100,000. The increase in unreserved fund balance was achieved by a continuation of conservative budgeting in which the administration believed there could be further reductions in State Shared Revenues and the realization that property tax revenues will be reduced because the TIF capture funding the DDA's activities will be increased to 100 percent for this and the next several fiscal years.

The differences between the original budget and the final amended budget for revenue and expenditures were \$52,000 and \$127,520, respectively. This amounted for roughly a 2.6 percent increase in revenues and a .6 percent increase in expenditures. The primary reason for the budgeted revenue increase was the positive excess of interest earned over previous expectations and the award of a federal public safety grant in the amount of \$21,450. The expenditure budget was adjusted to acknowledge operating costs which exceeded original estimates, as well as the contractual expenditures for an economic development director.

The difference between the actual and budgeted amounts can be largely attributed to cost containment measures by department administration, as the increase in unreserved fund balance resulted from a continuation in reducing or delaying equipment purchases and overall efforts to reduce unnecessary operational costs while maintaining services. Consequently, the General Fund continues to maintain a healthy unrestricted fund balance in excess of the recommended 25 to 30 percent of expenditures. This will allow the City to maintain its current level of services during the current economic downturn. The General Fund total fund balance increased by \$15,943, to equal \$1,003,597 at year-end.

Major Street Fund

The City receives revenues from the State of Michigan to maintain 8.56 miles of major streets as defined by Public Act 51 of 1951. Also included in this fund are operating costs to maintain the M-89 State Highway, according to contract. Because there were no capital improvement projects, cost containment within the operations and maintenance budget increased fund balance by \$117,394 to \$571,691. This fund balance will be available for future capital improvement projects.

Local Street Fund

The City receives revenues from the State of Michigan to maintain 12.8 miles of local streets as defined by Public Act 51 of 1951. Subsidies are regularly transferred from the Major Street Fund and/or the Street and Bridge Fund to accumulate sufficient resources to cover anticipated future street maintenance costs. Revenues and other sources, including a \$17,915 transfer from the Street & Bridge Fund, exceeded expenditures by \$20,306, increasing fund balance to \$272,461. This fund balance will be available for future capital improvement projects

Street & Bridge Fund

The Street and Bridge Fund is a special revenue fund where the City records a portion of the road tax collected by Allegan County. Because the county does not maintain any roads within the City, and there are no agreements otherwise between the county and the City, the County provides a portion of these monies to the City for capital improvement projects or road maintenance in accordance with Michigan Compiled Laws 224.20b. Revenues exceeded the transfer to the Local Street Fund, so that fund balance increased by \$129,788, 18 percent, to \$852,179.

Special Assessment Capital Project Fund

The fund did not provide any resources to capital improvement projects, and realized a 10 percent increase in fund balance from the collection of outstanding special assessments and investment interest. Unreserved fund balance available for future capital improvement projects now totals \$318,678.

Sewer Fund

Total operating revenues were \$15,303, or 2.6 percent more than original projections. Charges for services were \$9,760 or 1.7 percent more than projected. With more than expected revenues and less than expected expenses, Total Net Assets increased \$176,415 or 4.4 percent over the fiscal year due to cost containment. Total Net Assets are \$4,241,540 at year-end.

Water Fund

Total operating revenues were less than projected by \$12,394, or 4.6 percent. Charges for services, however, were less than the amount budgeted by \$14,614 or 5.6 percent. Total operating expenses were less than projections by \$78,797, or 19.8 percent. The reduction in sales of water also contributed to the reduction in non-depreciation related operating costs to the amount of \$59,512. Total Net Assets decreased \$10,767 or 0.5 percent over the fiscal year. Total Net Assets are \$1,875,520 at year-end.

Capital Project Fund

This fund is also a proprietary fund and has been involved with the development of seven residential plats and three commercial parcels with M-89 frontage. Lot prices in each of the plats have been calculated to offset construction and land acquisition costs. During the fiscal year, three residential lots were sold, leaving 25 lots available for sale. Two commercial lots remain available for sale at year-end. The value of the lots held as inventory at year-end totaled \$801,928. Lot sales of \$88,976 during the fiscal year exceeded the related development costs of \$64,850, yielding a profit on sales of \$24,126. Taking other expenses into consideration, namely property taxes on the unsold lots, net assets decreased by \$15,978 or 2.6 percent to \$607,726.

DPW Equipment Fund

Operating revenues were less than projected by 10.6 percent while operating expenses exceeded projections by 0.9 percent. The reduction in revenue can be attributed to a reduction in equipment use due to another light winter and less work in the City parks for capital improvements whereas the increase in expense is largely due to depreciation on the purchase of new equipment. The fund saw its net assets increase by 1.0 percent to \$439,168.

Capital Assets and Debt Administration

Capital Assets:

The City investment in capital assets for its governmental and business-type activities as of June 30, 2007 amounts to \$8,461,873 (net of accumulated depreciation). This investment includes a broad range of assets. Overall there was a total increase in the City's net investment in capital assets for the current fiscal year of \$139,620. The increase was due to the excess of capital assets acquired over depreciation.

Governmental capital asset additions were comprised of small land improvement and equipment purchases.

The largest capital acquisitions during the year were \$395,273 in sewer system projects and \$43,398 water main construction, both in progress at the end of the fiscal year.

Additional information regarding the City's capital assets can be located in the Note 6 of the notes to basic financial statements.

Long-Term Debt:

At the end of the fiscal year, the City had total long-term bonds and notes outstanding of \$466,838. Of this amount, \$71,838 comprises debt backed by the full faith and credit of the City. There is no debt backed by the limited full faith and credit of the City. Another \$395,000 represents bonds secured solely by specific revenue sources (i.e., revenue bonds).

The last rating the City received from Standard & Poor's for limited tax general obligation debt was a "BBB-" in 2002.

State statutes limit the amount of general obligation debt the City can issue to 10 percent of its total state equalized assessed value of property. The City's total general obligation debt (\$71,838) is significantly lower than the current state-imposed limit of \$12,549,924 based upon 2007 property values.

Other long-term debt obligations totaling \$108,157 represent accrued compensated absences. Additional information is presented in Note 7 to the basic financial statements.

Economic Condition and Outlook

The City's General Fund budget for the next year projects no change in State Share Revenues. This comes after five years of increasingly reduced revenues from the State. Property tax revenues are projected to increase 3.6 percent or approximately \$47,415 overall. The increase in expected General Fund tax revenues occurred partly because of a modest increase in taxable values and the solid waste reduction millage levy used to fund the City's recycling programs, leaf pickup and transfer station. The Menasha paper mill, which was the City's largest taxpayer for the 2005 tax year, and which represented 23.6 percent of the tax base, was sold in June of 2007 to United States Gypsum. This plant is currently being renovated and converted and is scheduled to go back into production in 2008.

The City's component unit, the DDA, is currently constructing a new department of public works facility in accordance with its development plan that expires in 2025. Construction began in the Spring of 2007 and is expected to be completed in December of 2007. Therefore, the DDA continues to capture 100 percent revenues from tax increment financing within the district and has secured authorization from the Otsego City Commission to receive interfund loans until sufficient revenues are available to complete construction debt-free. Loans have been authorized from idle funds not to exceed \$1,000,000, to be repaid at current investment rates of interest. The tax increment financing capture results in a reduction to General Fund tax revenue and requires the continued consideration of cost saving measures such as delays or freezes in capital purchases, program reductions and/or staff reductions.

The City recently received a judgement from the Michigan Tax Tribunal regarding an appeal of the taxable status of residential lots which have been developed. This appeal has been held in abeyance until a similar case with the City of Mt. Pleasant was decided. In 2004 these lots were deemed taxable by the Tribunal and the City was required to pay property taxes retroactively to 2002. Since that determination, property taxes have been paid by the City on the developed lots available for sale. A refund of taxes on the lots still owned by the City is expected and this amount is projected to be \$100,000 to \$115,000.

The City's sewer utility continued to increase its net assets, however, the water utility experienced a slight decrease in net assets, which has been expected. This demonstrates continued conservative and careful attention of management to maintenance and cost containment. Resources to continue infrastructure improvement and expansion are being used at a faster rate than excess revenues can replenish, however. This fact, along with reduced consumer use, caused an overall increase in sewer and water commodity rates from \$5.25 to \$5.47 for each 1,000 gallons of water used. This represents a 4.2 percent increase in commodity rates for the 2007-2008 fiscal year. The closure of the Menasha Corporation paper mill has also had a significant impact on the City's utility revenues. Before operations ended in 2005, the mill generated 18.7 percent of the sewer and water utility revenues. As previously mentioned, the new owner of the mill does not plan to resume operations until 2008. This required the increase in rates to maintain operations.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors and creditors, and to demonstrate the City's accountability for the money it receives. Questions regarding any information provided in this report or request for additional financial information should be addressed to:

Matthew Storbeck, Finance Director
City of Otsego
117 East Orleans Street
Otsego, MI 49078-1199

Phone: (269) 692-2741
E-Mail: finance.dir@ci.otsego.mi.us

INDEPENDENT AUDITORS' REPORT

City Commission
City of Otsego, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2007, and for the year then ended, which collectively comprise the City's basic financial statements, as listed in the contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages i through viii and 22 through 23, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Otsego, Michigan's basic financial statements. The combining fund financial statements, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Otsego, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siegfried Crandall P.C.

September 25, 2007

BASIC FINANCIAL STATEMENTS

City of Otsego
STATEMENT OF NET ASSETS
June 30, 2007

	Primary government			Component unit
	Governmental activities	Business-type activities	Totals	
ASSETS				
Current assets:				
Cash	\$ 2,809,179	\$ 1,408,618	\$ 4,217,797	\$ 366,950
Receivables, net	222,057	249,411	471,468	-
Internal balances	206,863	(206,863)	-	-
Due from component unit	352	-	352	-
Inventory	9,717	826,592	836,309	-
Prepaid costs	76,826	21,511	98,337	915
Total current assets	3,324,994	2,299,269	5,624,263	367,865
Noncurrent assets:				
Restricted cash	-	247,927	247,927	12,289
Receivables, net	61,950	-	61,950	-
Capital assets, not being depreciated	772,498	487,716	1,260,214	-
Capital assets, net of accumulated depreciation	2,809,507	4,392,152	7,201,659	1,451,418
Total non-current assets	3,643,955	5,127,795	8,771,750	1,463,707
Total assets	6,968,949	7,427,064	14,396,013	1,831,572
LIABILITIES				
Current liabilities:				
Accounts payable	61,752	196,740	258,492	31,711
Accrued liabilities	30,470	14,082	44,552	836
Due to primary government	-	-	-	352
Customer deposits	10,398	-	10,398	-
Current portion of long-term obligations	-	206,838	206,838	-
Total current liabilities	102,620	417,660	520,280	32,899
Noncurrent liabilities - long-term obligations	83,539	284,618	368,157	-
Total liabilities	186,159	702,278	888,437	32,899
NET ASSETS				
Invested in capital assets, net of related debt	3,582,005	4,484,868	8,066,873	-
Restricted for:				
Bond retirement	-	112,927	112,927	-
Public safety	1,343	-	1,343	-
Public works	1,696,331	-	1,696,331	-
Unrestricted	1,503,111	2,126,991	3,630,102	1,798,673
Total net assets	\$ 6,782,790	\$ 6,724,786	\$ 13,507,576	\$ 1,798,673

See notes to the financial statements

City of Otsego
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Primary government				
Governmental activities:				
Legislative	\$ 10,500	\$ -	\$ -	\$ -
General government	594,675	28,659	-	-
Public safety	937,108	134,163	1,817	21,450
Public works	719,545	34,082	313,245	-
Community and economic development	3,252	5,792	-	-
Parks and recreation	83,043	-	-	-
Total governmental activities	<u>2,348,123</u>	<u>202,696</u>	<u>315,062</u>	<u>21,450</u>
Business-type activities:				
Land development	107,946	88,976	-	-
Sewer	492,595	598,738	-	-
Water	<u>322,212</u>	<u>258,931</u>	<u>-</u>	<u>43,399</u>
Total business-type activities	<u>922,753</u>	<u>946,645</u>	<u>-</u>	<u>43,399</u>
Total primary government	<u>\$ 3,270,876</u>	<u>\$ 1,149,341</u>	<u>\$ 315,062</u>	<u>\$ 64,849</u>
Component unit - DDA	<u>\$ 168,934</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes
Public service tax
State shared revenue
Franchise fees
Investment income
Other

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

Primary government

<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>	<i>Component unit</i>
\$ (10,500)		\$ (10,500)	
(566,016)		(566,016)	
(779,678)		(779,678)	
(372,218)		(372,218)	
2,540		2,540	
<u>(83,043)</u>		<u>(83,043)</u>	
<u>(1,808,915)</u>		<u>(1,808,915)</u>	
	\$ (18,970)	(18,970)	
	106,143	106,143	
	<u>(19,882)</u>	<u>(19,882)</u>	
	<u>67,291</u>	<u>67,291</u>	
<u>(1,808,915)</u>	<u>67,291</u>	<u>(1,741,624)</u>	
			\$ <u>(168,934)</u>
1,316,303	-	1,316,303	312,255
110,670	-	110,670	-
382,587	-	382,587	-
36,781	-	36,781	-
167,966	88,893	256,859	23,434
<u>8,131</u>	<u>-</u>	<u>8,131</u>	<u>637</u>
<u>2,022,438</u>	<u>88,893</u>	<u>2,111,331</u>	<u>336,326</u>
213,523	156,184	369,707	167,392
<u>6,569,267</u>	<u>6,568,602</u>	<u>13,137,869</u>	<u>1,631,281</u>
<u>\$ 6,782,790</u>	<u>\$ 6,724,786</u>	<u>\$ 13,507,576</u>	<u>\$ 1,798,673</u>

See notes to the financial statements

City of Otsego
BALANCE SHEET - governmental funds
June 30, 2007

	<u>General</u>	<u>Street and Bridge</u>	<u>Special Assessment Capital Project</u>	<u>Other governmental funds</u>	<u>Totals</u>
ASSETS					
Cash	\$ 899,813	\$ 646,913	\$ 318,608	\$ 793,770	\$ 2,659,104
Receivables	162,300	-	72,589	49,118	284,007
Prepaid expenses	66,938	-	-	2,822	69,760
Due from other funds	-	205,266	-	-	205,266
Total assets	<u>\$ 1,129,051</u>	<u>\$ 852,179</u>	<u>\$ 391,197</u>	<u>\$ 845,710</u>	<u>\$ 3,218,137</u>
LIABILITIES					
Payables	\$ 32,905	\$ -	\$ -	\$ 125	\$ 33,030
Accrued liabilities	50,691	-	-	1,069	51,760
Due to other funds	6,396	-	-	364	6,760
Due to other governmental units	25,064	-	-	-	25,064
Customer deposits	10,398	-	-	-	10,398
Deferred revenue	-	-	72,519	-	72,519
Total liabilities	<u>125,454</u>	<u>-</u>	<u>72,519</u>	<u>1,558</u>	<u>199,531</u>
FUND BALANCES					
Reserved for public safety	1,343	-	-	-	1,343
Unreserved:					
Designated for capital outlay	100,000	-	-	-	100,000
Undesignated	902,254	852,179	318,678	-	2,073,111
Undesignated, reported in nonmajor - special revenue funds	-	-	-	844,152	844,152
Total fund balances	<u>1,003,597</u>	<u>852,179</u>	<u>318,678</u>	<u>844,152</u>	<u>3,018,606</u>
Total liabilities and fund balances	<u>\$ 1,129,051</u>	<u>\$ 852,179</u>	<u>\$ 391,197</u>	<u>\$ 845,710</u>	<u>\$ 3,218,137</u>
Total fund balances - total governmental activities					\$ 3,018,606
Amounts reported for governmental activities (page 4) in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					
					3,313,809
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					
					72,519
Internal service funds are used by management to charge costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.					
					439,168
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.					
					(61,312)
Net assets of governmental activities					<u>\$ 6,782,790</u>

See notes to the financial statements

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds***Year ended June 30, 2007*

	<u>General</u>	<u>Street and Bridge</u>	<u>Special Assessment Capital Project</u>
REVENUES			
Taxes	\$ 1,316,303	\$ -	\$ -
Federal grants	21,450	-	-
State grants	383,705	-	-
Fines and forfeitures	15,259	-	-
Licenses and permits	65,419	-	-
Intergovernmental	89,692	110,670	-
Charges for services	50,016	-	-
Interest and rentals	79,487	37,033	18,398
Other	40,456	-	10,569
	<u>2,061,787</u>	<u>147,703</u>	<u>28,967</u>
Total revenues	<u>2,061,787</u>	<u>147,703</u>	<u>28,967</u>
EXPENDITURES			
Legislative	10,500	-	-
General government	560,756	-	-
Public safety	886,270	-	-
Public works	493,005	-	-
Community and economic development	3,502	-	-
Recreation and culture - parks department	76,256	-	-
Capital outlay	15,555	-	-
	<u>2,045,844</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>2,045,844</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>15,943</u>	<u>147,703</u>	<u>28,967</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	(17,915)	-
	<u>-</u>	<u>(17,915)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>(17,915)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	15,943	129,788	28,967
FUND BALANCES - BEGINNING	<u>987,654</u>	<u>722,391</u>	<u>289,711</u>
FUND BALANCES - ENDING	<u>\$ 1,003,597</u>	<u>\$ 852,179</u>	<u>\$ 318,678</u>

<i>Other governmental funds</i>	<i>Totals</i>
\$ -	\$ 1,316,303
-	21,450
281,620	665,325
-	15,259
-	65,419
16,011	216,373
-	50,016
36,128	171,046
<u>1,138</u>	<u>52,163</u>
 334,897	 2,573,354
 -	 10,500
-	560,756
-	886,270
215,112	708,117
-	3,502
-	76,256
<u>-</u>	<u>15,555</u>
 215,112	 2,260,956
 119,785	 312,398
 17,915	 17,915
<u>-</u>	<u>(17,915)</u>
 17,915	 -
 137,700	 312,398
<u>706,452</u>	<u>2,706,208</u>
 <u>\$ 844,152</u>	 <u>\$ 3,018,606</u>

See notes to the financial statements

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - *governmental funds* (Continued)**

Year ended June 30, 2007

Net change in fund balances - total governmental funds (page 7)	\$ 312,398
Amounts reported for <i>governmental activities</i> in the statement of activities (page 5) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded expenditures for capital assets in the current period.	(110,828)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(10,569)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	25,025
The net revenue of certain activities of the internal service fund is reported with governmental activities.	<u>(2,503)</u>
Change in net assets of governmental activities	<u>\$ 213,523</u>

See notes to the financial statements

City of Otsego
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2007

	Business-type activities - Enterprise Funds			
	Sewer	Water	Capital Project	Totals
ASSETS				
Current assets:				
Cash	\$ 1,105,723	\$ 215,712	\$ 87,183	\$ 1,408,618
Receivables:				
Accounts	176,197	71,328	-	247,525
Interest	364	1,522	-	1,886
Due from other funds	1,333	-	-	1,333
Due from component unit	-	-	-	-
Inventory	386	24,278	801,928	826,592
Prepaid expenses	12,714	8,797	-	21,511
Total current assets	<u>1,296,717</u>	<u>321,637</u>	<u>889,111</u>	<u>2,507,465</u>
Noncurrent assets:				
Restricted cash	<u>214,790</u>	<u>33,137</u>	<u>-</u>	<u>247,927</u>
Capital assets, net:				
Sewer system	3,200,118	-	-	3,200,118
Water system	-	1,679,750	-	1,679,750
Buildings and equipment	-	-	-	-
Total capital assets	<u>3,200,118</u>	<u>1,679,750</u>	<u>-</u>	<u>4,879,868</u>
Total noncurrent assets	<u>3,414,908</u>	<u>1,712,887</u>	<u>-</u>	<u>5,127,795</u>
Total assets	<u>4,711,625</u>	<u>2,034,524</u>	<u>889,111</u>	<u>7,635,260</u>
LIABILITIES				
Current liabilities:				
Accounts payable	194,722	2,018	-	196,740
Accrued expenses	24,816	9,604	4,281	38,701
Due to other funds	547	2,382	205,266	208,195
Land contract - current	-	-	71,838	71,838
Bonds payable - current	<u>120,000</u>	<u>15,000</u>	<u>-</u>	<u>135,000</u>
Total current liabilities	<u>340,085</u>	<u>29,004</u>	<u>281,385</u>	<u>650,474</u>
Noncurrent liabilities - revenue bonds payable	<u>130,000</u>	<u>130,000</u>	<u>-</u>	<u>260,000</u>
Total liabilities	<u>470,085</u>	<u>159,004</u>	<u>281,385</u>	<u>910,474</u>
NET ASSETS				
Investment in capital assets, net of related debt	2,950,118	1,534,750	-	4,484,868
Restricted bond retirement	94,790	18,137	-	112,927
Unrestricted, unallocated	<u>1,196,632</u>	<u>322,633</u>	<u>607,726</u>	<u>2,126,991</u>
Total net assets	<u>\$ 4,241,540</u>	<u>\$ 1,875,520</u>	<u>\$ 607,726</u>	<u>\$ 6,724,786</u>

<u>Governmental</u>	
<u>activities</u>	
<u>DPW</u>	
<u>Equipment</u>	
\$	150,075
	-
	-
	8,357
	352
	9,717
	<u>7,066</u>
	<u>175,567</u>
	<u>-</u>
	-
	-
	<u>268,196</u>
	<u>268,196</u>
	<u>268,196</u>
	<u>443,763</u>
	3,658
	937
	-
	-
	<u>-</u>
	4,595
	<u>-</u>
	<u>4,595</u>
	268,196
	-
	<u>170,972</u>
\$	<u>439,168</u>

See notes to the financial statements

City of Otsego
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - *proprietary funds*
Year ended June 30, 2007

	<i>Business-type activities - Enterprise Funds</i>			
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>
OPERATING REVENUES				
Charges for services	\$ 583,195	\$ 246,741	\$ 88,976	\$ 918,912
Other	15,543	12,190	-	27,733
Total operating revenues	598,738	258,931	88,976	946,645
OPERATING EXPENSES				
Mains	49,819	120,304	-	170,123
Wastewater treatment plant	283,528	-	-	283,528
Water pumping	-	84,083	-	84,083
Administration	54,919	51,482	-	106,401
Other	-	-	92,520	92,520
Depreciation	90,219	63,234	-	153,453
Total operating expenses	478,485	319,103	92,520	890,108
Operating income (loss)	120,253	(60,172)	(3,544)	56,537
NONOPERATING REVENUES (EXPENSES)				
Interest	72,270	13,631	2,992	88,893
Interest expense	(16,108)	(7,625)	(15,426)	(39,159)
Capital grant from DDA	-	43,399	-	43,399
Gain on sale of fixed assets	-	-	-	-
Total nonoperating revenues (expenses)	56,162	49,405	(12,434)	93,133
CHANGE IN NET ASSETS	176,415	(10,767)	(15,978)	149,670
TOTAL NET ASSETS - BEGINNING	4,065,125	1,886,287	623,704	6,575,116
TOTAL NET ASSETS - ENDING	<u>\$ 4,241,540</u>	<u>\$ 1,875,520</u>	<u>\$ 607,726</u>	<u>\$ 6,724,786</u>
Net change in net assets - total business-type activities				\$ 149,670
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				6,514
Change in net assets of business-type activities				<u>\$ 156,184</u>

Governmental activities	
DPW Equipment	
\$	137,975
	<u>16,670</u>
	154,645
	-
	-
	-
	-
	111,900
	<u>56,070</u>
	167,970
	(13,325)
	6,411
	-
	-
	<u>11,466</u>
	17,877
	4,552
	<u>434,616</u>
\$	<u>439,168</u>

See notes to the financial statements

City of Otsego

STATEMENT OF CASH FLOWS - proprietary funds

Year ended June 30, 2007

	<i>Business-type activities - Enterprise Funds</i>			
	<u>Sewer</u>	<u>Water</u>	<u>Capital Project</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 595,816	\$ 260,636	\$ 88,976	\$ 945,428
Payments to suppliers	(48,648)	(169,341)	(27,763)	(245,752)
Payments to employees	(157,977)	(101,518)	-	(259,495)
Net cash provided by (used in) operating activities	<u>389,191</u>	<u>(10,223)</u>	<u>61,213</u>	<u>440,181</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Increase (decrease) in due to other funds	(268)	(2,344)	96,798	94,186
Principal payments on long-term debt	-	-	(67,454)	(67,454)
Interest payments on long-term debt	-	-	(19,445)	(19,445)
Net cash provided by (used in) noncapital financing activities	<u>(268)</u>	<u>(2,344)</u>	<u>9,899</u>	<u>7,287</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of fixed assets	-	-	-	-
Capital grant from DDA	-	43,399	-	43,399
Acquisition of capital assets	(395,273)	(43,398)	-	(438,671)
Principal payments on long-term debt	(110,000)	(15,000)	-	(125,000)
Interest payments on long-term debt	(17,104)	(6,931)	-	(24,035)
Net cash used in capital and related financing activities	<u>(522,377)</u>	<u>(21,930)</u>	<u>-</u>	<u>(544,307)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	<u>72,063</u>	<u>12,793</u>	<u>2,992</u>	<u>87,848</u>
NET INCREASE (DECREASE) IN CASH	<u>(61,391)</u>	<u>(21,704)</u>	<u>74,104</u>	<u>(8,991)</u>
BALANCES - BEGINNING	<u>1,381,904</u>	<u>270,553</u>	<u>13,079</u>	<u>1,665,536</u>
BALANCES - ENDING	<u>\$ 1,320,513</u>	<u>\$ 248,849</u>	<u>\$ 87,183</u>	<u>\$ 1,656,545</u>

***Governmental
activities***

***DPW
Equipment***

\$ 158,783
(94,236)
(21,376)

43,171

-
-
-
-

-

11,466
-
(21,299)
-
-
-

(9,833)

6,411

39,749

110,326

\$ 150,075

See notes to the financial statements

City of Otsego**STATEMENT OF CASH FLOWS - proprietary funds (Continued)**

Year ended June 30, 2007

	<i>Business-type activities - Enterprise Funds</i>			
	<u>Sewer</u>	<u>Water</u>	<u>Capital Project</u>	<u>Totals</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 120,253	\$ (60,172)	\$ (3,544)	\$ 56,537
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	90,219	63,234	-	153,453
(Increase) decrease in:				
Receivables, net	(4,446)	(3,386)	-	(7,832)
Due from other funds	1,524	-	-	1,524
Due from component unit	-	5,091	-	5,091
Inventory	(17)	5,709	64,850	70,542
Prepaid expenses	(2,536)	(2,516)	-	(5,052)
Increase (decrease) in:				
Accounts payable	190,439	(9,027)	(93)	181,319
Accrued liabilities	(6,245)	(9,156)	-	(15,401)
 Net cash provided by (used in) operating activities	 <u>\$ 389,191</u>	 <u>\$ (10,223)</u>	 <u>\$ 61,213</u>	 <u>\$ 440,181</u>

***Governmental
activities***

***DPW
Equipment***

\$ (13,325)

56,070

-

3,469

669

(295)

1,559

(1,165)

(3,811)

\$ 43,171

See notes to the financial statements

City of Otsego

STATEMENT OF FIDUCIARY NET ASSETS - Agency Fund

June 30, 2007

ASSETS

Cash	\$ 7,304
Receivables - taxes	<u>1,392</u>
Total assets	<u>\$ 8,696</u>

LIABILITIES

Due to other governmental units	\$ 1,392
Customer deposits	<u>7,304</u>
Total liabilities	<u>\$ 8,696</u>

See notes to the financial statements

City of Otsego
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Otsego, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The City is governed by an elected five-member Commission. The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. The component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally from the government.

Discretely-presented component unit - Downtown Development Authority:

This unit is presented in a separate column in the combined financial statements to emphasize that it is legally separate from the City. Separate financial statements of the component unit have not been issued, as management believes these general purpose financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit. The component unit's governing body is appointed by the City Commission and its budget must be approved by the City Commission.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Street and Bridge Fund accounts for the repairs and maintenance of streets and bridges not accounted for in other funds. Revenues are primarily derived from a county road millage.

The Special Assessment Capital Project Fund accounts for the construction or purchase of capital assets.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the operation of the City's sewage system and treatment plant.

The Water Fund accounts for the operation of the City's water mains and pumping facilities.

The Capital Project Fund accounts for the development and sale of residential and commercial real estate for purposes of promoting economic development within the City.

Additionally, the government reports the following fund types:

The internal service fund accounts for the DPW equipment assets and rentals by various City departments.

The agency fund accounts for the collection and disbursements of delinquent taxes and deposits due to other units and individuals.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iv) Capital assets (continued):

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Furniture, fixtures, and equipment	3 - 20 years
Vehicles	3 - 20 years
Sewer and water systems	50 years

v) Compensated absences (vacation and sick leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

NOTE 3 - DEPOSITS:

The City's cash and cash equivalents, as shown in the government-wide statement of net assets are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Total primary government</u>	<u>Component unit</u>
Cash	\$ 2,808,773	\$ 1,408,618	\$ 7,304	\$ 4,224,695	\$ 366,950
Cash on hand	406	-	-	406	-
Restricted assets	-	247,927	-	247,927	12,289
 Total cash	 <u>\$ 2,809,179</u>	 <u>\$ 1,656,545</u>	 <u>\$ 7,304</u>	 <u>\$ 4,473,028</u>	 <u>\$ 379,239</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - DEPOSITS (Continued):

Deposits with financial institutions:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2007, \$4,155,929 of the City's (including the component unit) bank balances of \$4,584,773 was exposed to custodial credit risk because it was uninsured. The City maintains individual and pooled cash accounts for all of its funds and its component units. Due to use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component units. The insured portion of the bank balance has been allocated entirely to the primary government.

The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and non-major funds, in the aggregate, are as follows:

	<u>Accounts</u>	<u>Interest</u>	<u>Special assess- ments</u>	<u>Inter- govern- mental</u>	<u>Totals</u>
Governmental funds:					
General Fund	\$ 37,151	\$ 522	\$ -	\$ 124,627	\$ 162,300
Special Assessments					
Capital Project Fund	-	70	72,519	-	72,589
Nonmajor governmental funds	-	158	-	48,960	49,118
Total governmental funds	<u>\$ 37,151</u>	<u>\$ 750</u>	<u>\$ 72,519</u>	<u>\$ 173,587</u>	<u>\$ 284,007</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,950</u>	<u>\$ -</u>	<u>\$ 61,950</u>
Proprietary funds:					
Sewer	\$ 176,197	\$ 364	\$ -	\$ -	\$ 176,561
Water	71,328	1,522	-	-	72,850
Total proprietary funds	<u>\$ 247,525</u>	<u>\$ 1,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,411</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity of the City for the current year was as follows:

	<i>Beginning balance</i>	<i>Increase</i>	<i>Decreases</i>	<i>Ending Balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 772,498	\$ -	\$ -	\$ 772,498
Capital assets being depreciated:				
Buildings	2,028,997	-	(2,343)	2,026,654
Improvements	875,836	19,379	(715)	894,500
Furniture, fixtures, and equipment	752,839	21,000	(69,112)	704,727
Vehicles	1,217,185	13,299	(98,556)	1,131,928
Subtotal	4,874,857	53,678	(170,726)	4,757,809
Less accumulated depreciation for:				
Buildings	(442,230)	(41,946)	2,343	(481,833)
Improvements	(136,356)	(41,288)	715	(176,929)
Furniture, fixtures, and equipment	(564,182)	(41,692)	69,112	(536,762)
Vehicles	(776,983)	(74,351)	98,556	(752,778)
Subtotal	(1,919,751)	(199,277)	170,726	(1,948,302)
Net capital assets being depreciated	2,955,106	(145,599)	-	2,809,507
Total capital assets - net of depreciation	\$ 3,727,604	\$ (145,599)	\$ -	\$ 3,582,005
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 23,052	\$ -	\$ -	\$ 23,052
Construction in progress	25,993	438,671	-	464,664
Subtotal	49,045	438,671	-	487,716
Capital assets being depreciated:				
Sewer system	4,701,152	-	(516,830)	4,184,322
Water system	2,492,754	-	(22,303)	2,470,451
Subtotal	7,193,906	-	(539,133)	6,654,773
Less accumulated depreciation for:				
Sewer system	(1,847,758)	(90,218)	516,830	(1,421,146)
Water system	(800,544)	(63,234)	22,303	(841,475)
Subtotal	(2,648,302)	(153,452)	539,133	(2,262,621)
Net capital assets being depreciated	4,545,604	(153,452)	-	4,392,152
Total capital assets - net of depreciation	\$ 4,594,649	\$ 285,219	\$ -	\$ 4,879,868

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<i>Beginning balance</i>	<i>Increase</i>	<i>Decreases</i>	<i>Ending Balance</i>
Component unit:				
Capital assets not being depreciated:				
Land	\$ 98,069	\$ -	\$ -	\$ 98,069
Construction in progress	<u>85,979</u>	<u>161,621</u>	<u>-</u>	<u>247,600</u>
Subtotal	<u>184,048</u>	<u>161,621</u>	<u>-</u>	<u>345,669</u>
Capital assets being depreciated - buildings and improvements	1,173,921	-	-	1,173,921
Less accumulated depreciation for - buildings and improvements	<u>(44,694)</u>	<u>(23,478)</u>	<u>-</u>	<u>(68,172)</u>
Net capital assets being depreciated	<u>1,129,227</u>	<u>(23,478)</u>	<u>-</u>	<u>1,105,749</u>
Total capital assets - net of depreciation	<u>\$ 1,313,275</u>	<u>\$ 138,143</u>	<u>\$ -</u>	<u>\$ 1,451,418</u>

Depreciation expense was charged to programs of the City as follows:

Governmental activities:	
General government	\$ 32,303
Public safety	68,105
Public works	91,331
Recreation and culture	<u>7,538</u>
Total governmental activities	<u>\$ 199,277</u>

NOTE 6 - LONG-TERM LIABILITIES:

Long-term liabilities at June 30, 2007, are comprised of the following individual issues:

Business-type activities:	
\$550,000 installment purchase agreement - land contract payable in annual installments of \$59,471 to \$71,838, plus interest at 6.50%; final payment due July 2007.	\$ 71,838
\$400,000 1975 Water Supply System Revenue Bonds - payable in annual installments of \$15,000 to \$20,000, plus interest at 5.00%; final payment due January 2015.	145,000
\$945,000 1989 Wastewater System Revenue Bonds - payable in annual installments of \$65,000 to \$85,000, plus interest at 7.20%; final payment due November 2008.	165,000
\$455,000 1989 Wastewater System Revenue Bonds - payable in annual installments of \$30,000 to \$45,000, plus interest at 7.05% to 7.15%; final payment due November 2008.	<u>85,000</u>
Total	<u>\$466,838</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued):

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities - compensated absences	<u>\$ 111,224</u>	<u>\$ 65,110</u>	<u>\$ (92,795)</u>	<u>\$ 83,539</u>	<u>\$ -</u>
Business-type activities:					
1975 revenue bonds	\$ 160,000	\$ -	\$ (15,000)	\$ 145,000	\$ 15,000
1989 revenue bonds	240,000		(75,000)	165,000	80,000
1990 revenue bonds	120,000		(35,000)	85,000	40,000
Eley IV land contract	139,292		(67,454)	71,838	71,838
Compensated absences	<u>41,243</u>	<u>45,980</u>	<u>(62,605)</u>	<u>24,618</u>	<u>-</u>
Total business-type activities	<u>\$ 700,535</u>	<u>\$ 45,980</u>	<u>\$ (255,059)</u>	<u>\$ 491,456</u>	<u>\$ 206,838</u>

All debt is secured by the full faith and credit of the City.

Debt service requirements at June 30, 2007, were as follows:

<u>Year ended June 30:</u>	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 206,838	\$ 25,261
2009	145,000	10,463
2010	20,000	5,250
2011	20,000	4,250
2012	20,000	3,250
2013 - 2015	<u>55,000</u>	<u>3,875</u>
Total	<u>\$ 466,838</u>	<u>\$ 52,349</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Fund</u>	<u>Interfund payables</u>
Sewer	\$ 1,333	Water	\$ 1,333
DPW Equipment	8,357	General	6,396
		Sewer	548
		Water	1,049
		Other governmental funds	364
			<u>8,357</u>
Street and bridge	<u>205,266</u>	Capital project	<u>205,266</u>
Total	<u>\$ 214,956</u>	Total	<u>\$ 214,956</u>

The interfund balance due to the Street and Bridge Fund from the Capital Project Fund represents a short-term loan to cover development inventory costs. Other interfund balances represent current amounts due for equipment charges in the DPW fund, and Water Fund expenses paid by the Sewer Fund.

A summary of interfund transfers for the year ended June 30, 2007, are as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Other governmental funds	\$ <u>17,915</u>	Streets and bridge	\$ <u>17,915</u>

The transfer was used to move available unrestricted funds from Streets and Bridge to finance local street costs.

NOTE 8 - RISK MANAGEMENT:

The City is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$5,000,000, building contents, workers' compensation, employee medical, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - RETIREMENT PLAN:

The City maintains a defined contribution pension plan, which includes all of its full-time employees. The City contributes 10% of covered payroll to this plan on behalf of qualifying employees. The pension plan provides for various elections as to the retirement benefit determination. Benefits are vested after two years of credited service.

The City made the required contributions of \$113,697 for the year ended June 30, 2007. The City is not a trustee of these plans, nor is the City responsible for investment management of plan assets.

NOTE 10 - CONTINGENT LIABILITIES:

The City is contingently liable to its employees for approximately \$280,000 in accumulated non-vested sick pay benefits.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2007, is as follows:

Revenues	\$ 24,754
Expenses	<u>27,555</u>
Deficiency of revenues over expenses	<u>\$ (2,801)</u>

NOTE 12 - CONSTRUCTION COMMITMENTS:

At June 30, 2007, the City has authorized the following contracts:

	<u>Total contract</u>	<u>Expended to date</u>
DPW Facility Phase 2	\$ 1,299,500	\$ (38,838)
Washington Street Pump Station	278,500	(165,700)
WWTP Improvements	<u>338,600</u>	<u>(169,600)</u>
Totals	<u>\$ 1,916,600</u>	<u>\$ (374,138)</u>

These improvements are being funded by available funds.

REQUIRED SUPPLEMENTARY INFORMATION

City of Otsego**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 1,306,600	\$ 1,306,600	\$ 1,316,303	\$ 9,703
Federal grants	-	20,000	21,450	1,450
State grants	401,700	401,700	383,705	(17,995)
Fines and forfeitures	17,000	17,000	15,259	(1,741)
Licenses and permits	71,875	71,875	65,419	(6,456)
Intergovernmental	80,000	80,000	89,692	9,692
Charges for services	41,000	41,000	50,016	9,016
Interest and rentals	42,750	74,750	79,487	4,737
Other	47,200	47,200	40,456	(6,744)
Total revenues	<u>2,008,125</u>	<u>2,060,125</u>	<u>2,061,787</u>	<u>1,662</u>
EXPENDITURES				
Legislative	10,500	10,500	10,500	-
General government	536,975	564,975	560,756	4,219
Public safety	890,890	911,385	886,270	25,115
Public works	440,955	501,805	493,005	8,800
Community and economic development	2,300	6,470	3,502	2,968
Recreation and culture	110,100	110,205	76,256	33,949
Capital outlay	2,700	16,600	15,555	1,045
Total expenditures	<u>1,994,420</u>	<u>2,121,940</u>	<u>2,045,844</u>	<u>76,096</u>
NET CHANGE IN FUND BALANCE	13,705	(61,815)	15,943	77,758
FUND BALANCES - BEGINNING	<u>987,654</u>	<u>987,654</u>	<u>987,654</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,001,359</u>	<u>\$ 925,839</u>	<u>\$ 1,003,597</u>	<u>\$ 77,758</u>

City of Otsego**BUDGETARY COMPARISON SCHEDULE - Street and Bridge Fund**

Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Intergovernmental	\$ 115,000	\$ 115,000	\$ 110,670	\$ (4,330)
Interest	<u>16,000</u>	<u>22,300</u>	<u>37,033</u>	<u>14,733</u>
Total revenues	131,000	137,300	147,703	10,403
OTHER FINANCING USES				
Transfer to Local Street Fund	<u>(17,915)</u>	<u>(17,915)</u>	<u>(17,915)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	113,085	119,385	129,788	10,403
FUND BALANCES - BEGINNING	<u>722,391</u>	<u>722,391</u>	<u>722,391</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 835,476</u>	<u>\$ 841,776</u>	<u>\$ 852,179</u>	<u>\$ 10,403</u>

SUPPLEMENTARY INFORMATION

City of Otsego**COMBINING BALANCE SHEET - non-major governmental funds**

June 30, 2007

	<u>Special revenue funds</u>		<u>Total non-major governmental funds</u>
	<u>Major Street</u>	<u>Local Street</u>	
ASSETS			
Cash	\$ 533,167	\$ 260,603	\$ 793,770
Receivables	-	158	158
Prepaid expenses	1,516	1,306	2,822
Due from other governmental units	<u>37,668</u>	<u>11,292</u>	<u>48,960</u>
Total assets	<u>\$ 572,351</u>	<u>\$ 273,359</u>	<u>\$ 845,710</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 43	\$ 82	\$ 125
Accrued liabilities	513	556	1,069
Due to other funds	<u>104</u>	<u>260</u>	<u>364</u>
Total liabilities	660	898	1,558
Fund balances, unrestricted	<u>571,691</u>	<u>272,461</u>	<u>844,152</u>
Total liabilities and fund balances	<u>\$ 572,351</u>	<u>\$ 273,359</u>	<u>\$ 845,710</u>

City of Otsego**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - non-major governmental funds***Year ended June 30, 2007*

	<u>Special revenue funds</u>		<u>Total non-major governmental funds</u>
	<u>Major Street</u>	<u>Local Street</u>	
REVENUES			
State grants	\$ 205,119	\$ 76,501	\$ 281,620
Intergovernmental	16,011	-	16,011
Interest	23,817	12,311	36,128
Other	<u>560</u>	<u>578</u>	<u>1,138</u>
Total revenues	<u>245,507</u>	<u>89,390</u>	<u>334,897</u>
EXPENDITURES			
Public works	<u>128,113</u>	<u>86,999</u>	<u>215,112</u>
EXCESS OF REVENUES OVER EXPENDITURES	117,394	2,391	119,785
OTHER FINANCING SOURCES			
Operating transfer in	<u>-</u>	<u>17,915</u>	<u>17,915</u>
NET CHANGE IN FUND BALANCES	117,394	20,306	137,700
FUND BALANCES - BEGINNING	<u>454,297</u>	<u>252,155</u>	<u>706,452</u>
FUND BALANCES - ENDING	<u>\$ 571,691</u>	<u>\$ 272,461</u>	<u>\$ 844,152</u>

City of Otsego
BALANCE SHEETS - governmental funds
June 30, 2007

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Street and Bridge</u>
ASSETS				
Cash	\$ 899,813	\$ 533,167	\$ 260,603	\$ 646,913
Receivables:				
Special assessments	-	-	-	-
Accounts	37,151	-	-	-
Interest	522	-	158	-
Prepaid expenses	66,938	1,516	1,306	-
Due from other funds	-	-	-	205,266
Due from other governmental units	<u>124,627</u>	<u>37,668</u>	<u>11,292</u>	<u>-</u>
 Total assets	 <u>\$ 1,129,051</u>	 <u>\$ 572,351</u>	 <u>\$ 273,359</u>	 <u>\$ 852,179</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 32,905	\$ 43	\$ 82	\$ -
Accrued liabilities	50,691	513	556	-
Due to other funds	6,396	104	260	-
Due to other governmental units	25,064	-	-	-
Customer deposits	10,398	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total liabilities	 <u>125,454</u>	 <u>660</u>	 <u>898</u>	 <u>-</u>
 Fund balances:				
Reserved for public safety	1,343	-	-	-
Unreserved:				
Designated for fire truck	100,000	-	-	-
Undesignated	<u>902,254</u>	<u>571,691</u>	<u>272,461</u>	<u>852,179</u>
 Total fund balances	 <u>1,003,597</u>	 <u>571,691</u>	 <u>272,461</u>	 <u>852,179</u>
 Total liabilities and fund balances	 <u>\$ 1,129,051</u>	 <u>\$ 572,351</u>	 <u>\$ 273,359</u>	 <u>\$ 852,179</u>

***Special
Assessment
Capital Project***

\$ 318,608

72,519

-

70

-

-

-

\$ 391,197

\$ -

-

-

-

-

-

72,519

72,519

-

-

318,678

318,678

\$ 391,197

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - General Fund**

Year ended June 30, 2007

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Taxes	\$ 1,306,600	\$ 1,316,303	\$ 9,703
Federal grants	20,000	21,450	1,450
State grants	401,700	383,705	(17,995)
Fines and forfeitures	17,000	15,259	(1,741)
Licenses and permits	71,875	65,419	(6,456)
Intergovernmental	80,000	89,692	9,692
Charges for services	41,000	50,016	9,016
Interest and rentals	74,750	79,487	4,737
Other	<u>47,200</u>	<u>40,456</u>	<u>(6,744)</u>
Total revenues	<u>2,060,125</u>	<u>2,061,787</u>	<u>1,662</u>
EXPENDITURES			
Legislative	<u>10,500</u>	<u>10,500</u>	<u>-</u>
General government:			
City Manager	72,475	72,732	(257)
Elections	4,500	2,576	1,924
Assessor	21,975	21,232	743
Board of Review	750	660	90
Treasurer/finance director	218,840	220,281	(1,441)
Building and grounds	40,620	36,143	4,477
Cemetery	59,980	56,921	3,059
Other administration	<u>145,835</u>	<u>150,211</u>	<u>(4,376)</u>
Total general government	<u>564,975</u>	<u>560,756</u>	<u>4,219</u>
Public safety:			
Police	706,550	686,121	20,429
Fire	177,000	172,594	4,406
Building inspections	<u>27,835</u>	<u>27,555</u>	<u>280</u>
Total public safety	<u>911,385</u>	<u>886,270</u>	<u>25,115</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - General Fund (Continued)***Year ended June 30, 2007*

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
EXPENDITURES (Continued)			
Public works:			
Department of public works	\$ 73,875	\$ 64,326	\$ 9,549
General services	249,090	260,991	(11,901)
Sidewalks	14,735	5,038	9,697
Recycling	102,760	98,811	3,949
Transfer station	61,345	63,839	(2,494)
Total public works	<u>501,805</u>	<u>493,005</u>	<u>8,800</u>
Community and economic development	<u>6,470</u>	<u>3,502</u>	<u>2,968</u>
Recreation and culture:			
Parks and recreation	96,520	62,943	33,577
Community center	13,685	13,313	372
Total recreation and culture	<u>110,205</u>	<u>76,256</u>	<u>33,949</u>
Capital outlay	<u>16,600</u>	<u>15,555</u>	<u>1,045</u>
Total expenditures	<u>2,121,940</u>	<u>2,045,844</u>	<u>76,096</u>
NET CHANGE IN FUND BALANCE	(61,815)	15,943	77,758
FUND BALANCES - BEGINNING	<u>987,654</u>	<u>987,654</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 925,839</u>	<u>\$ 1,003,597</u>	<u>\$ 77,758</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Major Street Fund**

Year ended June 30, 2007

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 215,000	\$ 205,119	\$ (9,881)
Intergovernmental	18,000	16,011	(1,989)
Interest	10,000	23,817	13,817
Other	-	560	560
	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>243,000</u>	<u>245,507</u>	<u>2,507</u>
 EXPENDITURES			
Public works:			
Surface maintenance	32,125	23,790	8,335
Sweeping	7,300	6,708	592
Shoulder maintenance	615	229	386
Trees and shrubs	9,205	3,141	6,064
Drainage	5,495	3,775	1,720
Bridge maintenance	4,045	3,958	87
Traffic signs and signals	4,915	2,249	2,666
Pavement marking	5,275	2,019	3,256
Winter maintenance	29,445	27,993	1,452
Administration	10,495	8,026	2,469
State trunk line maintenance	34,290	26,846	7,444
Engineering	-	19,379	(19,379)
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>143,205</u>	<u>128,113</u>	<u>15,092</u>
 NET CHANGE IN FUND BALANCE	 99,795	 117,394	 17,599
 FUND BALANCES - BEGINNING	 <u>454,297</u>	 <u>454,297</u>	 <u>-</u>
 FUND BALANCES - ENDING	 <u>\$ 554,092</u>	 <u>\$ 571,691</u>	 <u>\$ 17,599</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Local Street Fund***Year ended June 30, 2007*

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 81,000	\$ 76,501	\$ (4,499)
Interest	6,000	12,311	6,311
Other	-	578	578
	<u>87,000</u>	<u>89,390</u>	<u>2,390</u>
EXPENDITURES			
Public works:			
Surface maintenance	32,650	29,685	2,965
Contracts	10,400	9,533	867
Shoulder maintenance	1,350	145	1,205
Trees and shrubs	18,955	12,305	6,650
Drainage	6,330	6,257	73
Traffic signs and signals	3,030	1,857	1,173
Pavement marking	2,660	2,555	105
Winter maintenance	18,080	17,058	1,022
Administration	11,460	7,604	3,856
	<u>104,915</u>	<u>86,999</u>	<u>17,916</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(17,915)	2,391	20,306
OTHER FINANCING SOURCES			
Transfer from Street and Bridge Fund	<u>17,915</u>	<u>17,915</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	20,306	20,306
FUND BALANCES - BEGINNING	<u>252,155</u>	<u>252,155</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 252,155</u>	<u>\$ 272,461</u>	<u>\$ 20,306</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - *Street and Bridge Fund***

Year ended June 30, 2007

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Intergovernmental	\$ 115,000	\$ 110,670	\$ (4,330)
Interest	<u>22,300</u>	<u>37,033</u>	<u>14,733</u>
Total revenues	137,300	147,703	10,403
 OTHER FINANCING USES			
Transfer to Local Street Fund	<u>(17,915)</u>	<u>(17,915)</u>	<u>-</u>
 NET CHANGE IN FUND BALANCE	119,385	129,788	10,403
 FUND BALANCES - BEGINNING	<u>722,391</u>	<u>722,391</u>	<u>-</u>
 FUND BALANCES - ENDING	<u>\$ 841,776</u>	<u>\$ 852,179</u>	<u>\$ 10,403</u>

City of Otsego

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCE - BUDGET AND ACTUAL - *Special Assessment Capital Project Fund*

Year ended June 30, 2007

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Interest	\$ 11,800	\$ 18,398	\$ 6,598
Other - special assessment revenue	<u>9,000</u>	<u>10,569</u>	<u>1,569</u>
Total revenues	20,800	28,967	8,167
FUND BALANCES - BEGINNING	<u>289,711</u>	<u>289,711</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 310,511</u>	<u>\$ 318,678</u>	<u>\$ 8,167</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - Sewer Fund**

Year ended June 30, 2007

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Charges for services	\$ 573,435	\$ 583,195	\$ 9,760
Delinquent penalties	10,000	12,132	2,132
Other	-	3,411	3,411
	<u>583,435</u>	<u>598,738</u>	<u>15,303</u>
OPERATING EXPENSES			
Mains	67,845	49,819	18,026
Wastewater treatment plant	279,430	283,528	(4,098)
Administration	68,775	54,919	13,856
Depreciation	102,900	90,219	12,681
	<u>518,950</u>	<u>478,485</u>	<u>40,465</u>
OPERATING INCOME	<u>64,485</u>	<u>120,253</u>	<u>55,768</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	15,000	72,270	57,270
Interest expense	(17,104)	(16,108)	996
	<u>(2,104)</u>	<u>56,162</u>	<u>58,266</u>
CHANGE IN NET ASSETS	<u>62,381</u>	<u>176,415</u>	<u>114,034</u>
NET ASSETS - BEGINNING	<u>4,065,125</u>	<u>4,065,125</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 4,127,506</u>	<u>\$ 4,241,540</u>	<u>\$ 114,034</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - *Water Fund****Year ended June 30, 2007*

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Charges for services	\$ 261,355	\$ 246,741	\$ (14,614)
Hydrant rentals	6,370	6,370	-
Delinquent penalties	3,600	4,146	546
Other	-	1,674	1,674
	<u>271,325</u>	<u>258,931</u>	<u>(12,394)</u>
OPERATING EXPENSES			
Mains	159,515	120,304	39,211
Water pumping	98,495	84,083	14,412
Administration	78,760	51,482	27,278
Depreciation	61,130	63,234	(2,104)
	<u>397,900</u>	<u>319,103</u>	<u>78,797</u>
	<u>(126,575)</u>	<u>(60,172)</u>	<u>66,403</u>
OPERATING LOSS			
NONOPERATING REVENUES (EXPENSES)			
Capital grant from DDA	-	43,399	43,399
Interest income	6,500	13,631	7,131
Interest expense	(7,625)	(7,625)	-
	<u>(1,125)</u>	<u>49,405</u>	<u>50,530</u>
CHANGE IN NET ASSETS	<u>(127,700)</u>	<u>(10,767)</u>	<u>116,933</u>
NET ASSETS - BEGINNING	<u>1,886,287</u>	<u>1,886,287</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 1,758,587</u>	<u>\$ 1,875,520</u>	<u>\$ 116,933</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - Capital Project Fund**

Year ended June 30, 2007

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Sale of developed lots	\$ 260,000	\$ 88,976	\$ (171,024)
OPERATING EXPENSES			
Cost of developed lots	200,000	64,850	135,150
Legal expense	500	150	350
Advertising	-	162	(162)
Property taxes	27,500	27,358	142
Total operating expenses	228,000	92,520	135,480
OPERATING INCOME (LOSS)	32,000	(3,544)	(35,544)
NONOPERATING REVENUES (EXPENSES)			
Interest income	500	2,992	2,492
Interest expense	(9,055)	(15,426)	(6,371)
Total nonoperating expenses	(8,555)	(12,434)	(3,879)
CHANGE IN NET ASSETS	23,445	(15,978)	(39,423)
NET ASSETS - BEGINNING	623,704	623,704	-
NET ASSETS - ENDING	\$ 647,149	\$ 607,726	\$ (39,423)

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - DPW Equipment Fund**

Year ended June 30, 2007

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Equipment rental	\$ 155,000	\$ 137,975	\$ (17,025)
Reimbursements	<u>18,000</u>	<u>16,670</u>	<u>(1,330)</u>
Total operating revenues	<u>173,000</u>	<u>154,645</u>	<u>(18,355)</u>
OPERATING EXPENSES			
Equipment pool operations	120,025	111,900	8,125
Depreciation	<u>46,500</u>	<u>56,070</u>	<u>(9,570)</u>
Total operating expenses	<u>166,525</u>	<u>167,970</u>	<u>(1,445)</u>
OPERATING LOSS	<u>6,475</u>	<u>(13,325)</u>	<u>(19,800)</u>
NONOPERATING REVENUES			
Interest income	3,500	6,411	2,911
Gain on sale of fixed assets	<u>-</u>	<u>11,466</u>	<u>11,466</u>
Total nonoperating revenues	<u>3,500</u>	<u>17,877</u>	<u>14,377</u>
CHANGE IN NET ASSETS	9,975	4,552	(5,423)
NET ASSETS - BEGINNING	<u>434,616</u>	<u>434,616</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 444,591</u>	<u>\$ 439,168</u>	<u>\$ (5,423)</u>

City of Otsego
BALANCE SHEET - Downtown Development Authority
June 30, 2007

ASSETS

Cash	\$	366,950
Restricted cash		12,289
Prepaid expenses		<u>915</u>
Total assets	\$	<u>380,154</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$	19,422
Retainages payable		12,289
Accrued liabilities		836
Due to primary government		<u>352</u>
Total liabilities		32,899
Fund balance, unrestricted		<u>347,255</u>
Total liabilities and fund balance	\$	<u>380,154</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Downtown Development Authority**

Year ended June 30, 2007

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Tax increment financing	\$ 316,600	\$ 312,255	\$ (4,345)
Interest income	34,000	23,434	(10,566)
Other	<u>1,000</u>	<u>637</u>	<u>(363)</u>
Total revenues	<u>351,600</u>	<u>336,326</u>	<u>(15,274)</u>
EXPENDITURES			
Public works	107,405	146,277	(38,872)
Capital outlay	<u>370,000</u>	<u>161,621</u>	<u>208,379</u>
Total expenditures	<u>477,405</u>	<u>307,898</u>	<u>169,507</u>
NET CHANGE IN FUND BALANCES	(125,805)	28,428	154,233
FUND BALANCES - BEGINNING	<u>318,827</u>	<u>318,827</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 193,022</u>	<u>\$ 347,255</u>	<u>\$ 154,233</u>